

StudleyReport

STUDLEY OFFICE MARKET AND SPACEDATA REPORT

MARKET HIGHLIGHTS

OVERALL RENTS POST INCREASES

In the District, overall asking rents (\$46.99) recorded quarterly and yearly increases of 1.0% and 7.9%. Northern Virginia's overall asking rents, \$30.75, grew both quarter-on-quarter (+1.4%) and year-on-year (+7.3%). In Suburban Maryland, overall asking rents (\$27.17) increased by 0.9% from last quarter and by 8.7% from last year.

FOUR-QUARTER LEASING GROWS YEAR-ON-YEAR

On a trailing four-quarter basis, overall leasing activity in the District totaled 7.5 msf, a rise of 14.8% from last quarter and of 33.3% from last year. In Northern Virginia, four-quarter leasing attained 11.0 msf, a quarterly drop (-2.4%) but a yearly increase (+19.6%). Activity in Suburban Maryland (4.2 msf) fell for the quarter by 1.0% but rose for the year by 9.4%.

OVERALL AVAILABILITY RATES RISE

The District's overall availability rate, 12.5%, registered up-ticks of 1.9 pp from last quarter and 6.8 pp from last year. The rate in Northern Virginia, 16.4%, also rose for the quarter (+2.0 pp) and the year (+6.1 pp). Suburban Maryland's rate, 13.0%, likewise posted quarterly (+0.5 pp) and annual (+2.1 pp) increases.

MORE LARGE BLOCKS

The number of large contiguous blocks of space (100,000 sf or more) in the District rose to 24 from 21 last quarter and 11 last year. In Northern Virginia, the number of such blocks increased to 51 from 39 during the previous quarter and 33 a year ago. In Suburban Maryland, the number of such blocks stood at 20, compared to 17 last quarter and 14 during the second quarter of 2007.

Activity Quieting But Washington Market Remains Relatively Tight

There have been a lot of news stories this year about a slowing market, which has led tenants to expect an inordinate amount of leverage in lease negotiations. The reality is that Washington is a market that is, in fact, slowing but perhaps not at the rate expected earlier in the year or being experienced in other major metropolitan markets.

Second-quarter rents rose while office space became more widely available — a relationship that may seem counterintuitive. However, two distinct story lines can be drawn from the market: larger tenants still find a small number of space options, while smaller tenants are seeing landlords become a bit more competitive as sublease space becomes more widely available.

From a large tenant's perspective, downtown Washington has a limited number of large blocks of space to offer. Although the amount of available space increased citywide in the second quarter, availability of Class A downtown space decreased compared to the first quarter. Rents rose in the second quarter for Class A space in six out of seven submarkets. Landlords have been able to close deals by increasing tenant improvement allowances rather than reducing rent because demand in downtown Washington remains high among companies of all sizes and sectors. Of the largest seven leases signed in Washington during the second quarter, five were renewals. Large firms with an intention of moving continue to start real estate searches five to seven years before their lease expirations. A reflection of that trend is Arent Fox's deal to be the lead tenant at 1000 Connecticut Avenue, NW, which is expected to deliver in 2012. The 255,000-sf commitment also represents a 20,000-sf expansion for the firm.

From a small or mid-sized tenant's perspective, an increasing amount of sublease space is pressuring landlords to be more flexible. The amount of sublease space available in downtown Washington increased by 30% in the second quarter from a year earlier, to reach about 850,000 sf. The increase of sublet space on the market has contributed to the perceived downward pressure on asking rents, though longer-term subleases are still able to demand rents similar to prime rates.

Northern Virginia

Office demand in the Northern Virginia market remained flat through the second quarter of 2008. Both the forthcoming election and softening national economy have forced companies to become much more conservative. Market conditions remained healthy inside the Beltway with several Arlington County submarkets recording single-digit availability rates of 5% to 9%. Conversely, submarkets outside the Beltway

WASHINGTON, D.C. TRANSACTION BAROMETER

	Under 50,000 sf	One Qtr Change	Over 50,000 sf	One Qtr Change
Average Term:	10-12 yrs	◀▶	10-15 yrs	◀▶
Concessions:				
Free Rent	0-6 months	◀▶	0-6 months	◀▶
Tenant Improvements	\$55.00-\$75.00/sf	◀▶	\$60.00-\$85.00/sf	▲
Other	Renewals	▲	Renewals	▲

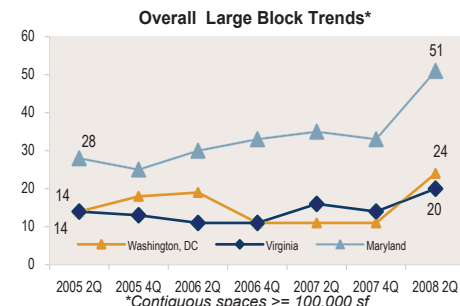
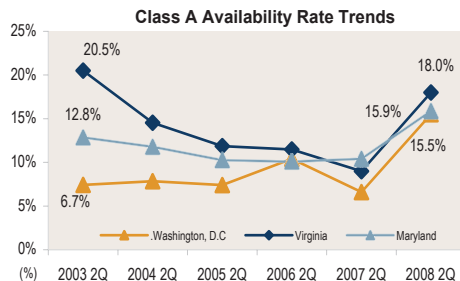
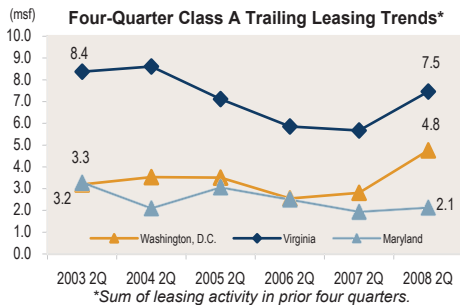
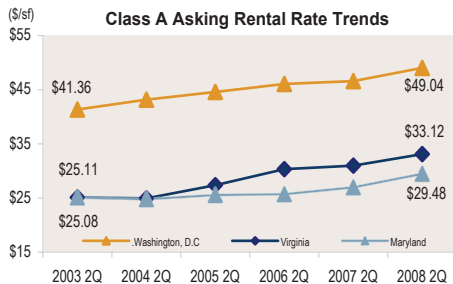
Outlook: Lower deal volume has kept the transaction barometer relatively unchanged from the first quarter. However, concessions have been increasing as landlords try to prevent face rents from dropping.

NORTHERN VIRGINIA TRANSACTION BAROMETER

	Under 50,000 sf	One Qtr Change	Over 50,000 sf	One Qtr Change
Average Term:	5-10 yrs	◀▶	10-15 yrs	◀▶
Concessions:				
Free Rent	0-4 months	◀▶	0-9 months	▲
Tenant Improvements	\$20.00-\$60.00/sf	▲	\$40.00-\$70.00/sf	▲
Other	Renewals	▲	Renewals	▲

Outlook: More tenants opted to renew at their existing locations, resulting in an increase in the number of renewal transactions over the last several quarters. Landlords continued to be aggressive, offering more concessions and additional rent abatement.

▲ Up ▼ Down ◀▶ Unchanged



continued to struggle with high double-digit availability rates ranging from 15% to 20%, due to increased speculative development particularly along the western end of the Dulles Corridor.

The lease renewal trend continued as more tenants opted to stay at their current locations to avoid higher rents and the overall high costs of relocating. Astute property owners offered increasingly aggressive terms in order to keep their tenants in place. Eight of Northern Virginia's top 10 lease transactions consisted of renewals during the second quarter. The largest lease was signed by Sprint-Nextel, which renewed for 323,243 sf at 2000-2003 Edmund Halley Drive in Reston. Other top renewal deals over 100,000 sf included the National Guard Bureau (249,691 sf) in Crystal City, Department of Defense (235,983 sf) in Pentagon City, Argon ST (165,029 sf) in Fairfax Center, and U.S. Postal Service (117,866 sf) in Rosslyn.

While availability rates rose for a second consecutive quarter, average rental rates continued to increase but at slower pace — a sign that rents may start to level off. Rents for all classes averaged \$30.75 psf full service in Northern Virginia, a 1.4% increase from the previous quarter. Meanwhile, Class A rents increased just 0.9% from the previous quarter ending at \$33.12 psf full service. In the second quarter, developers delivered more than 1.7 msf of office space in the region at a trifling pre-lease rate of 14%. The first half of 2008 ended with 4.0 msf delivered in Northern Virginia at a pre-lease rate of 32%. With more than 2.1 msf currently under construction, new groundbreakings have dropped off considerably. Only two buildings started during the second quarter: Meridian Group's National Gateway I, a 360,000-sf building at 2805 S. Crystal Drive in Crystal City, and Quadrangle's 293,000-sf office project at 1850 Towers Crescent Plaza in Tysons Corner.

Suburban Maryland

Following the trend in Northern Virginia, office tenants in suburban Maryland are proceeding cautiously under the current economic conditions. Overall availability rates in the region remained flat, ending at 13.0% for the second quarter. Meanwhile, Class A availability rose to 15.9%, or 1.3 percentage points above the previous quarter, primarily due to the delivery of several new buildings. Average asking rents in the region increased to \$27.17 psf, while Class A rents increased to \$29.48 psf full service. Government agencies and defense contractors accounted for the majority of the quarter's top transactions. At 5850 University Research Court in Prince George's County, the Intelligence Advanced Research Projects Activity (IARPA) signed the largest lease of the quarter, taking 120,000 sf. Defense contractor EG&G took the second largest lease of 51,007 sf at 20501 Seneca Meadows Parkway in Germantown.

After a surge of new construction in the last two years, development activity has slowed down. A little more than 2.0 msf in 12 buildings is currently under construction, which collectively have a relatively low pre-lease level of 27%. Montgomery County accounted for most of the development activity with nine buildings totaling 1.8 msf, located mostly along the I-270 Corridor in Rockville, North Rockville and Gaithersburg. Just three projects are currently under construction totaling 403,515 sf in Prince George's County and all are expected to deliver by the end of the year.

Submarket Focus

Availability rates in downtown Washington dropped slightly from the first to the second quarter, while availability in the city's other submarkets suffered due to new construction yet to find interested tenants. Interest has been steady in the city's emerging submarkets in Southeast near the new ballpark and in the North of Massachusetts Avenue neighborhood (NoMa) since the beginning of the year but has yet to result in signed leases by private companies. Developers are still courting firms to take space near the ballpark. NoMa has watched some government agency prospects renew in downtown locations rather than relocate to the up-and-coming neighborhood. In Southwest — another submarket dependent

MAJOR TRANSACTIONS

Tenant	Sq Feet	Address	Market Area
Sprint-Nextel	323,243	2000-2003 Edmund Halley Dr	Fairfax County
National Labor Relations Board	276,032	1099 14th St NW	East End/Convention Center
Arent Fox*	255,000	1000 Connecticut Ave NW	CBD
National Guard Bureau	249,691	1411 Jefferson Davis Hwy	Arlington County
GSA-Department of Defense*	235,983	400 Army-Navy Dr	Arlington County
Argon ST	165,029	12701 Fair Lakes Cir	Fairfax County
PricewaterhouseCoopers	130,000	1301 K St NW	East End/Convention Center
Intelligence Advanced Research Projects Activity	120,000	5850 University Research Ct	Prince George's County
U.S. Postal Service	117,866	1735 N Lynn St	Arlington County
GSA-State Department	110,294	2121 Virginia Ave NW	CBD
CNN	96,000	820 1st St NE	Capitol Hill
GSA-Drug Enforcement Administration	76,000	801 Eye St NW	East End/Convention Center
U.S. Green Building Council	75,446	2101 L St NW	CBD
SmithBucklin*	71,389	2025 M St NW	CBD
Network Appliance	66,869	1921 Gallows Rd	Fairfax County
Sum of Top 15 Leases	2,368,842	Sum of 2nd Quarter Leasing Activity	5.8 MSF

*Studley Deals

on government agencies — the amount of available space more than doubled as 2.1 msf of new construction nears completion without a single tenant signed to take space in any of the three buildings, which explains why asking rents in the submarket dropped 5.1% from the first quarter.

Located across the Potomac River from the District, Rosslyn is one of the strongest submarkets in Northern Virginia. Several leases were signed in the second quarter, which included the U.S. Postal Service at 1735 N. Lynn Street and Argosy University at 1550 Wilson Boulevard. With increased demand and low single-digit availability rates, rents have increased dramatically. The Rosslyn submarket achieved the highest rents in Northern Virginia with several Class A buildings asking over \$50 psf full service. The number of large blocks of Class A space (100,000 sf or more) is extremely limited, and no new construction deliveries are planned for the remainder of 2008.

The North Rockville submarket experienced increased activity for the quarter. Availability rates have remained in the 12% to 13% range over the last several quarters, while rental rates have held steady at \$29 psf full service. Demand stabilized as the submarket attracted three of the top 10 largest leases in Suburban Maryland. Significant leases that signed over the quarter included Progressive Insurance (15,000 sf) at 2 Choke Cherry Road, Savantage Financial Services (11,768 sf) at 1355 Piccard Drive, and Verso Technologies (11,164 sf) at 2096 Gaither Road.

Outlook

Traditional downtown Washington tenants will continue to get aggressively courted by developers pitching NoMa and the ballpark areas as viable neighborhoods offering lower rents than the city's more mature submarkets. However, both areas for now lack the amenity bases that high-end tenants covet, such as white tablecloth restaurants or business-class hotels. Tenant activity in downtown Washington will remain active, as leases continue to expire and firms seek expansion options outside their current buildings. And the smarter tenants are starting earlier. On the subject of asking rents, the rising prices of construction, utilities and taxes are not helping tenants' arguments for lower rents.

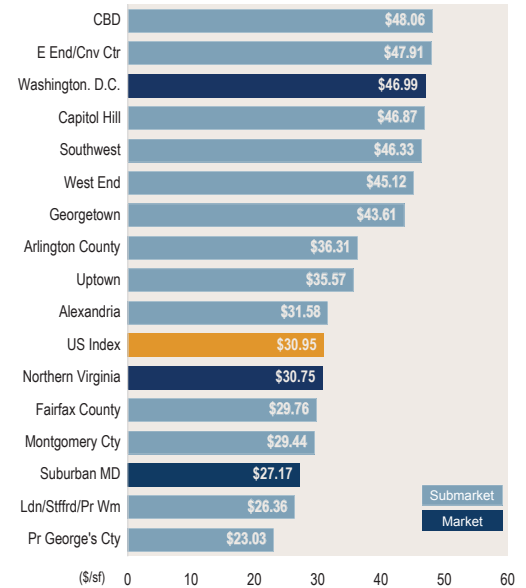
The Northern Virginia office market is expected to soften for the remainder of 2008. High rents and the cost of relocating will continue to be an issue and we expect more renewal transactions to take place. With supply outpacing demand, the market balance has shifted toward the tenant. Several landlords with empty buildings have started to offer \$2 to \$3 psf below asking rents in addition to higher concessions. As demand remains soft, especially in the most oversupplied markets, we expect landlords to become more aggressive by offering lower rents along with larger concession packages in order to attract tenants.

The Suburban Maryland office market is projected to remain flat for remainder of 2008. With an additional 2.0 msf of new space scheduled to come to the market, the region will experience a slight increase in vacancy rates in the near term. The close-in submarkets of Bethesda/Chevy Chase and Silver Spring have remained tight with few options for tenants looking for large blocks of quality space. These tenants may start to look further north along the I-270 Corridor where there are more large blocks of space available at much lower rates.

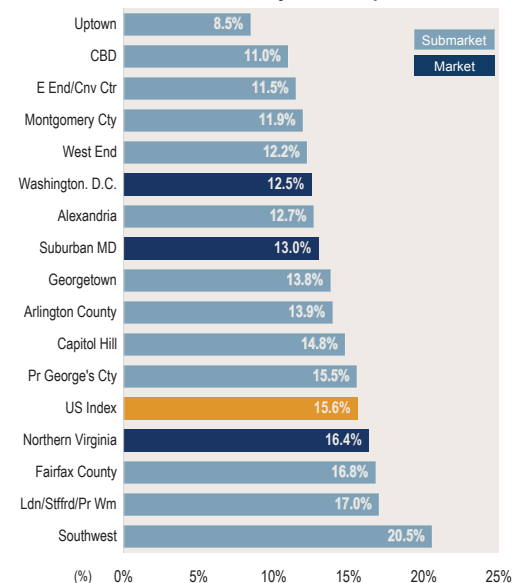
ABOUT OUR FIRM

Studley is the leading commercial real estate services firm specializing in tenant representation. Founded in 1954, Studley pioneered the conflict-free business model of representing only tenants with their commercial real estate transactions, allowing Studley advisors to pursue the best agreement terms for their clients unencumbered by obligations to landlords, banks or outside investors. With 19 offices nationwide and an international presence through its London office and AOS Studley, Studley provides a broad range of real estate consulting services, including strategic planning, financial analysis, portfolio management, transaction execution and capital transactions.

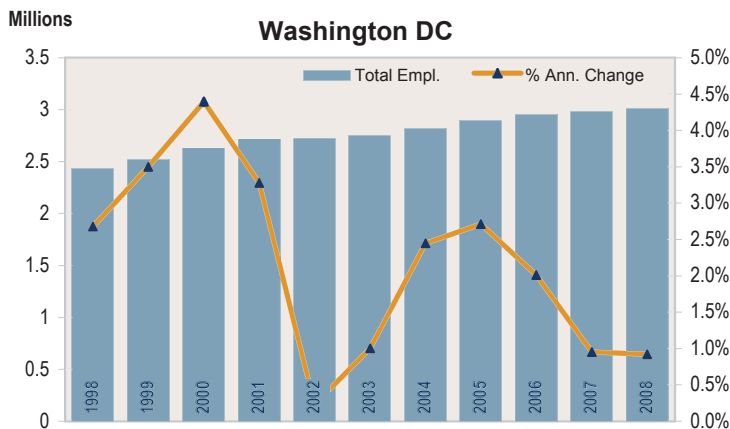
Asking Rental Rate Comparison



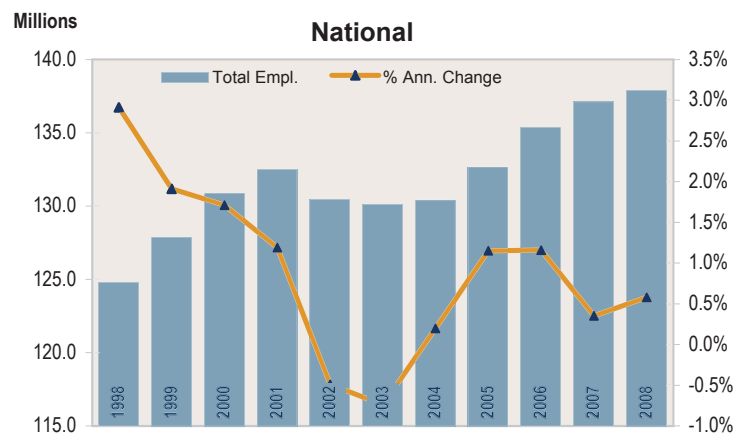
Availability Rate Comparison



EMPLOYMENT TRENDS



Source: Bureau of Labor Statistics



Source: Bureau of Labor Statistics

MARKET SNAPSHOT: 2Q 2008

	SUBMARKET	TOTAL	LEASING ACTIVITY		AVAILABLE SF				AVAILABILITY RATE				ASKING RENTS PER SF			
		Inventory SF (1,000's)	Last 12 Mos	5 Yr Average	This Qtr	% Change from Last Qtr	Yr Ago	5 Yrs Ago	This Qtr	pp Change from Last Qtr ⁽¹⁾	Yr Ago	5 Yrs Ago	This Qtr	% Change from Last Qtr	Yr Ago	5 Yrs Ago
	Capitol Hill	14,717	818	426	2,171	32.5%	387	712	14.8%	3.4%	2.8%	6.3%	\$46.87	2.4%	\$45.74	\$38.05
	Capitol Hill - Class A	9,387	747	273	1,904	29.3%	291	450	20.3%	4.1%	3.4%	7.4%	\$47.06	2.5%	\$48.94	\$42.09
	East End/Convention Center	39,469	2,814	2,409	4,532	8.9%	2,336	2,502	11.5%	0.9%	6.0%	7.5%	\$47.91	-0.4%	\$46.11	\$37.94
	East End/Convention Center - Class A	26,570	1,953	1,633	3,070	-1.0%	1,622	1,403	11.6%	-0.1%	6.2%	7.2%	\$50.25	0.3%	\$49.25	\$41.73
	Central Business District	37,050	2,596	2,504	4,060	-0.5%	1,938	2,941	11.0%	-0.1%	5.3%	8.2%	\$48.06	1.1%	\$43.21	\$36.25
	Central Business District - Class A	11,953	1,028	761	1,111	-6.3%	395	886	9.3%	-0.7%	3.3%	8.4%	\$52.92	4.3%	\$46.06	\$42.91
	West End	3,430	119	139	419	-11.2%	444	202	12.2%	-1.5%	12.9%	6.0%	\$45.12	0.4%	\$42.92	\$32.84
	West End - Class A	2,213	79	123	351	-11.7%	439	199	15.9%	-2.1%	19.8%	9.6%	\$45.27	1.6%	\$42.92	\$32.80
	Georgetown	2,743	304	210	378	-13.4%	332	230	13.8%	-2.1%	12.1%	8.9%	\$43.61	12.6%	\$35.55	\$29.94
	Georgetown - Class A	1,190	234	107	274	-11.5%	298	76	23.0%	-3.0%	25.0%	9.2%	\$44.22	18.2%	\$34.93	\$38.70
	Southwest	10,650	415	531	2,188	156.0%	717	190	20.5%	12.5%	6.7%	2.1%	\$46.33	-5.1%	\$43.32	\$38.17
	Southwest - Class A	5,515	235	292	2,106	168.8%	615	162	38.2%	24.0%	11.1%	4.4%	\$46.64	-7.3%	\$44.33	\$38.28
	Uptown	5,659	107	291	479	15.9%	268	307	8.5%	1.2%	4.7%	5.5%	\$35.57	2.9%	\$31.46	\$27.00
	Uptown - Class A	602	6	32	94	109.7%	35	29	15.6%	8.2%	5.8%	5.9%	\$39.60	12.9%	\$38.12	\$33.57
	Fairfax County	98,357	6,647	6,540	16,500	9.1%	9,980	18,014	16.8%	1.4%	10.2%	20.2%	\$29.76	0.5%	\$27.50	\$23.16
	Fairfax County - Class A	58,275	4,737	3,264	10,796	15.5%	4,833	11,307	18.5%	2.5%	8.3%	23.0%	\$32.48	0.2%	\$30.14	\$24.58
	Alexandria	15,495	664	794	1,963	44.7%	1,419	1,468	12.7%	3.9%	9.2%	11.9%	\$31.58	0.0%	\$28.56	\$24.80
	Alexandria - Class A	7,868	490	398	772	-5.5%	381	740	9.8%	-0.6%	4.8%	15.8%	\$35.95	2.5%	\$30.75	\$26.28
	Arlington County	35,313	2,924	2,583	4,912	16.1%	3,771	3,337	13.9%	1.9%	10.7%	10.7%	\$36.31	3.5%	\$33.80	\$29.32
	Arlington County - Class A	20,501	1,918	1,630	2,641	12.2%	2,137	2,035	12.9%	1.4%	10.4%	12.0%	\$38.46	2.6%	\$35.65	\$29.87
	Loudoun/Stafford/Prince William	17,732	713	620	3,015	1.1%	1,798	2,613	17.0%	-1.4%	11.2%	21.1%	\$26.36	3.7%	\$23.64	\$20.19
	Loudoun/Stafford/Prince William - Class A	7,021	313	307	2,121	8.2%	1,056	1,311	26.0%	-1.9%	15.2%	30.2%	\$27.48	3.0%	\$25.14	\$21.63
	Montgomery County	57,731	3,171	3,320	6,893	6.0%	5,517	7,410	11.9%	0.6%	9.6%	13.3%	\$29.44	1.3%	\$27.19	\$25.46
	Montgomery County - Class A	29,727	1,662	1,871	4,042	14.8%	2,502	3,500	13.6%	1.6%	8.5%	13.0%	\$32.76	0.4%	\$29.78	\$27.41
	Prince George's County	23,301	1,152	1,121	3,619	4.0%	3,202	3,268	15.5%	0.4%	13.9%	14.6%	\$23.03	-0.3%	\$21.16	\$17.78
	Prince George's County - Class A	11,137	813	647	2,448	4.4%	1,683	1,230	22.0%	0.6%	15.4%	12.3%	\$24.26	-0.1%	\$22.30	\$18.93
	WASHINGTON, D.C. TOTAL	113,716	7,450	6,540	14,227	18.0%	6,422	7,084	12.5%	1.9%	5.7%	7.0%	\$46.99	1.0%	\$43.54	\$36.29
	WASHINGTON D.C. TOTAL - Class A	57,430	4,759	3,264	8,910	22.2%	3,694	3,206	15.5%	2.7%	6.6%	7.4%	\$49.04	1.5%	\$46.61	\$41.36
	NORTHERN VIRGINIA TOTAL	165,736	10,948	11,710	27,296	15.2%	16,968	25,432	16.4%	2.0%	10.3%	17.6%	\$30.75	1.4%	\$28.66	\$23.77
	NORTHERN VIRGINIA TOTAL - Class A	93,665	7,458	7,206	17,069	17.9%	8,406	15,393	18.0%	2.5%	9.0%	20.5%	\$33.12	0.9%	\$31.00	\$25.11
	SUBURBAN MARYLAND TOTAL	81,032	4,199	4,429	10,512	5.3%	8,719	10,678	13.0%	0.5%	10.9%	13.7%	\$27.17	0.9%	\$24.99	\$22.99
	SUBURBAN MARYLAND TOTAL - Class A	40,865	2,123	2,485	6,490	10.7%	4,185	4,730	15.9%	1.3%	10.4%	12.8%	\$29.48	0.8%	\$26.96	\$25.08
	GREATER WASHINGTON, D.C. TOTAL	360,484	22,597	22,485	52,034	13.8%	32,109	43,194	14.4%	1.6%	9.0%	13.3%	\$33.99	1.6%	\$30.19	\$25.70
	GREATER WASHINGTON D.C. TOTAL - Class A	191,960	14,340	12,776	32,469	17.5%	16,285	23,329	16.8%	2.3%	8.6%	15.0%	\$35.91	1.1%	\$32.68	\$27.30

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⁽¹⁾ Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents p/sf.
Statistics are calculated using both direct and sublease information.
The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
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